LEGISLATIVE AUDITOR

STATE OF LOUISIANA

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER-
HEALTH CARE SERVICES DIVISION

STATE OF LOUISIANA

MANAGEMENT LETTER
ISSUED JANUARY 12, 2005

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OFFICE OF
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December 21, 2004

LOUISIANA STATE UNIVERSITY
HEALTH SCIENCES CENTER -
HEALTH CARE SERVICES DIVISION
STATE OF LOUISIANA
Baton Rouge, Louisiana

As part of our audit of the Louisiana State University System's financial statements for the year ended June 30, 2004, we considered the Louisiana State University Health Sciences Center (LSUHSC) - Health Care Services Division's (HCSD) internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the System's financial statements; and we tested HCSD's compliance with laws and regulations that could have a direct and material effect on the System's financial statements as required by *Government Auditing Standards*. In addition, we considered HCSD's internal control over compliance with requirements that could have a direct and material effect on a major federal program, as defined in the Single Audit of the State of Louisiana, and we tested the HCSD's compliance with laws and regulations that could have a direct and material effect on the major federal programs as required by United States Office of Management and Budget Circular A-133.

The annual financial information of the LSUHSC, which includes the activity of HSCD, was not audited by us, and, accordingly, we do not express an opinion on that financial information. HCSD's accounts are an integral part of the System's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on HCSD, for the year ended June 30, 2003, we reported findings relating to the inventory system not fully functional, inadequate support for restatement of capital assets, inadequate collection procedures for self-pay patients, and failure to submit a document retention schedule to State Archives. The findings related to inadequate collection procedures for self-pay patients and failure to submit a document retention schedule to State Archives have been resolved by management. The finding on the inventory system not fully functional has been addressed again in this letter. The finding related to inadequate support for restatement of capital assets has been partially resolved by management and is addressed in the finding on internal control weakness over capital assets included in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2004.

Noncompliance With the HIV Care Formula Grants Program

University Medical Center (UMC) and Lallie Kemp Regional Medical Center (LKRMC) did not comply with eligibility requirements for administering the HIV Care Formula Grants Program (CFDA 93.917). In accordance with agreements between the Louisiana Department of Health and Hospitals (Office of Public Health) and UMC and LKRMC, the hospitals are responsible for determining a patient's financial eligibility. Financial eligibility requirements include documented income at or below 200% of the federal poverty level, no third party payer source for these medications, no other financial assets exceeding $4,000, and no incarcerated patients. In addition, re-certification is required of all patients seen for continued eligibility on, at a minimum, an annual basis, and records documenting the financial eligibility of all clients should be maintained.

During a review of the HIV Care Formula Grants programs at UMC and LKRMC, the following discrepancies were disclosed:

- At UMC, nine (75%) of the 12 patients tested did not have evidence that income had been verified within one year before the prescription fill date. Procedures disclosed that UMC employees do not verify income if the patients state they are not working and when employees do verify income, patient information may not be updated or maintained. In addition, if a patient does not have evidence to support social security and/or welfare benefits, UMC employees may accept this information based on the patient's word.
- At LKRMC, four (24%) of the 17 patient files tested were not eligible for the program because of documented financial ineligibility, and one (6%) out of 17 patient files was not eligible for the program because of a third party payer source and financial assets exceeding $4,000. The patients were documented as ineligible in LKRMC's computer records, but LKRMC employees did not check the patients' financial eligibility and incarceration status before providing program services and charging the program.

Failure to establish adequate internal control procedures to ensure compliance with program regulations can result in payments made to ineligible clients. As a result of the exceptions noted at UMC, questioned costs totaled $7,675 for this program, which serves over 100 patients per month at a cost of approximately $90,000 per month. As a result of the exceptions noted at LKRMC, questioned costs totaled $3,406 for this program, which serves over 55 patients per month at a cost of approximately $37,000 per month.

Management should develop and implement written control procedures over the HIV Care Formula Grants Program to facilitate compliance with the program eligibility requirements and should monitor adherence to those procedures. In addition, management should review current patient files to ensure eligibility and that supporting documentation is maintained. Finally, management should contact the grant provider to resolve the questioned costs. Management concurred with the finding and recommenddations and outlined a plan of corrective action (see Appendix A, pages 1-2).

Internal Control Weakness Over Capital Assets

HCSD uses one capital assets accounting system for financial reporting and a different accounting system for the physical inventory of capital assets. HCSD uses the American Appraisal Associates (AAA) system for equipment and buildings for federal cost reporting and financial reporting; however, the physical inventory for equipment and buildings and land is performed using the Louisiana Property Assistance Agency (LPAA) and the State Land and Buildings (SLABS) systems, respectively.

HCSD's failure to perform physical inventories on the same system as is being used for financial reporting increases the risk that misstatements of capital assets and depreciation could occur and not be detected timely. Management should perform its physical inventory of capital assets at each HCSD facility with the AAA system used for financial statement purposes to verify that the items exist and are recorded at their proper value. This inventory should be reconciled to the LPAA and SLABS systems, and if any discrepancies are discovered, the appropriate systems should be adjusted. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 3-4).

Weaknesses in the Controls Over Inventory

The Medical Center of Louisiana at New Orleans (MCLNO), University Medical Center (UMC), and Leonard J. Chabert Medical Center (LJCMC) did not maintain adequate control over their consumable inventories. In addition, for the fourth consecutive year, the inventory component of the PeopleSoft system is not fully functional. In fiscal year 2001, HCSD hospitals implemented the PeopleSoft inventory component on the Warehouse and Supplies Processing and Distribution (SPD) inventories. A proper system of internal control over inventory should include procedures to ensure that assets are safeguarded and that inventory losses, should they occur, are detected in a short period of time by normal business procedures. A perpetual inventory system is generally regarded as an acceptable method of controlling inventory and safeguarding assets. Use of a perpetual inventory system allows an entity to record receipt of goods at the time of purchase and issue goods as they are withdrawn for use. At any point in time, a count of goods on hand should agree to the balance in the inventory system. Discrepancies should be investigated to determine if losses are due to theft or fraud.

Our tests of inventory at MCLNO disclosed the following discrepancies:

- The medical center uses a perpetual inventory system only on the warehouse inventory ($1,648,631), which is only 19% of MCLNO's total inventory ($8,550,507). The warehouse uses the Enterprise Systems Incorporated (ESI) system for the warehouse's perpetual inventory.
- Fifty-nine (68%) of 87 warehouse items tested at MCLNO Charity Campus did not match the inventory amounts reported in the ESI system.
- Twenty (51%) of 39 warehouse items tested at MCLNO University Hospital Campus did not match the inventory amounts recorded in the ESI system.
- The medical center has not reconciled its inventory in the PeopleSoft system with inventory in the ESI system. For over two years, the medical center has been running the ESI system and PeopleSoft inventories parallel in an effort to convert to the PeopleSoft inventory system. At June 30, 2004, the ESI system had a valuation of $1,616,017 of all active and inactive items in stock. The PeopleSoft system had a valuation of $5,305,832 at June 30, 2004, for a difference of $3,689,815 between the two systems and a difference of $3,657,201 from the physical count of $1,648,631.

Our tests of inventory at UMC disclosed the following discrepancies:

- The warehouse and SPD inventories were not maintained on a perpetual inventory system.

- Five (56%) of nine inventory items tested could not be reconciled back to the most recent physical inventory count performed.

Our tests of inventory at LJCMC disclosed the following discrepancies:

- Ten (50%) of 20 inventory items tested from the physical count did not match the inventory amounts reported in the PeopleSoft system.

- At the time test work was performed, some employees were not submitting requisitions for issuances of inventory.

- Errors were noted in the conversion of units of measure in the PeopleSoft system.

Failure to provide adequate controls over inventory increases the risk that losses of inventory will occur and remain undetected.

Management should continue to review the problems with the PeopleSoft system and provide a functioning inventory system to the hospitals as soon as possible. The count of goods on hand should agree to the balances in the inventory system at any point in time. Management should ensure that all policies are followed such as using perpetual inventory records for the warehouse and SPD inventories, submitting requisitions for issuances of inventory, and using accurate units of measure in the PeopleSoft system. Management concurred in part with the finding and recommendations. However, management disagrees that the inventory component of the PeopleSoft system is not fully functional at an enterprise wide level and does not believe that it is an accurate representation of the improvements and additional work that has been done on a system-wide basis. Management outlined a plan of corrective action (see Appendix A, pages 5-6).

Additional Comment: While HCSD and PeopleSoft support staff have made considerable improvements in the inventory system on a system-wide basis, the inventory system was not adequately functioning for three hospitals during fiscal year 2004.

Inadequacies in Controls Over Movable Property

UMC and MCLNO did not enforce adequate internal controls or comply with state regulations and hospital policy over movable property. This is the third consecutive audit of UMC and the seventh consecutive audit of MCLNO to disclose these inadequacies. Good internal controls require that procedures be in place to ensure that movable property transactions are recorded timely and accurately and assets are properly safeguarded. In addition, good internal controls should ensure that movable property is maintained as prescribed by the commissioner of administration and Louisiana law. Louisiana Revised Statute (R.S.) 39:325 requires agencies to conduct an annual inventory of movable property and report any unlocated movable property to LPAA. Louisiana Administrative Code (LAC) 34:VII.313 states, in part, that efforts must be made to locate all movable property for which there are no explanations available for their disappearance. In addition, R.S. 39:323 and LAC 34:VII.307 require that acquisitions be tagged and information forwarded to LPAA within 60 days of receipt of the movable property item(s). In addition, LAC 34:VII.311 states, in part, that property location shall be kept current.

During a review of the movable property records at UMC, the following discrepancies were noted:

- In a test of 36 movable property items, two items totaling $723,408 that were scrapped and replaced in fiscal year 1999 remained on LPAA's inventory list. Four items (11%) were not tagged. Also, six items (17%) were not located at the location indicated in the LPAA inventory list; five items (14%) did not have accurate item descriptions in the LPAA inventory list; and five items (14%) were not operational or could not be verified as operational.

- For the Certification of Annual Property Inventory submitted January 16, 2003, supporting documentation could not be provided for the first previous year's (2001) discrepancies, the second previous year's (2000) discrepancies, certain disposed equipment, and LPAA's approval for a due date extension.

- Eight (67%) of 12 items tested did not have the internal form required by the medical center for the acquisition or deletion of the item.

- For two (33%) of six acquisitions tested, the auditor could not confirm the acquisition dates because of insufficient supporting documentation.

During a review of movable property records at MCLNO, the following discrepancies were noted:

- In its Certification of Annual Property Inventory dated June 30, 2004, the medical center reported for fiscal year 2004 that it was unable to locate movable property valued at $753,153. In addition, movable property valued at $3.3 million (4.69% of $70.6 million total inventory) was reported to be unlocated from the previous three years. In a test of 10 items that were recorded as found in the current fiscal year, which were not located in the past three fiscal years (2001-2003), only five items (50%) were available and observed to confirm existence. The other five items were not located as confirmed by the property manager. Further review indicated that the amounts on the original certification were incorrect for the current year and the previous three years' discrepancies because the property manager failed to reconcile the listing of unlocated items to the master inventory listing in LPAA.

- In a review of 20 acquisitions of movable property items, three (15%) of the 20 items reviewed were not tagged within the 60-day period after receipt of the asset.

- Our physical inspection test of 24 movable property items valued at $2,108,438 disclosed that 11 items valued at $235,215 were found to have incorrect location codes and five items valued at $10,469 could not be located.

- Of 15 movable property items selected during our walkthrough to compare tag numbers to medical center records, eight items (53%) did not match the location recorded in Protégé, and two items (13%) were not recorded on the LPAA system.

- In a test of 10 dispositions sampled, five (50%) were not properly approved by the Cost Center Manager and six (60%) were not approved by the Department Director or Assistant Administrator. It was also noted in this test that four (40%) of the items tested valued in excess of $3,000 (requiring the approval of the Chief Operating Officer before disposal) were not properly approved and six (60%) did not have an evaluation of the property's condition before disposal.

Failure to maintain adequate internal control over movable property increases the risk of loss and/or misappropriation of assets and may result in noncompliance with state laws and regulations and hospital policy. In addition, failure to maintain an accurate movable property system increases the risk of inaccurate accounting and reporting.

Management should require and monitor adherence to its policies and procedures to ensure that movable property is safeguarded and accounted for in accordance with state laws and regulations. Management should also continue its efforts to search for unlocated assets. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, pages 7-8).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the division. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the division should be considered in reaching decisions on courses of action. Findings relating to the division's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of the division and its management and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

BH:ES:PEP:dl

HCSD04

Appendix A

Management's Corrective Action Plans and Responses to the Findings and Recommendations

LSU Health Sciences Center
HEALTH CARE SERVICES DIVISION

School of Medicine in New Orleans
School of Medicine in Shreveport
School of Dentistry
School of Nursing
School of Allied Health Professions
School of Graduate Studies
Health Care Services Division

November 18, 2004

Steve J. Theriot, CPA
Legislative Auditor
Office of the Legislative Auditor
1600 North Third Street
Post Office Box 94397
Baton Rouge, LA 70804-9397

RE: Audit Finding: Noncompliance with the HIV Care Formula Grants Program
Fiscal Year Ended June 30, 2004

Dear Mr. Theriot:

This letter is in response to the November 8, 2004 Legislative Auditor letter on reportable audit findings for two Louisiana State University Health Sciences Center – Health Care Services Division (HCSD) facilities' noncompliance with the HIV Care Formula Grants Program.

Based on the audit information provided in your letter and in the response letters from the facilities Chief Financial Officers, HCSD concurs with the findings of the audit and with the corrective actions stated for each facility with the addition that UMC expand their actions to include a review of the current patient files for documentation that supports eligibility. HCSD management will be responsible for contacting the grantor to resolve the issue of hospital questioned costs. Please refer to responses from the hospitals submitted to the legislative audit staff dated March 26, 2004 for University Medical Center (UMC) and June 30, 2004 for Lallie Kemp Regional Medical Center (LAK).

Current HCSD policies provide facilities with guidance to gather and maintain information used in determining patient income for 200% of the poverty level as stated in the Free Care Determination for LSUHSC-HCSD Policy (#2525-04) and the Admit/Screening Policy (#1503-00). The HCSD Ryan White Care Act Title II ADAP contract with the Office of Public Health states that eligibility will be certified at least annually. The Admit Screening policy outlines that outpatients are to be re-screened at least every 6 months and inpatients on every admission. In addition, since the receipt of this audit, HCSD Planning and Governmental Relations Section issued a memorandum to all facility HIV Site Coordinators on the audit finding and instructions to insure that eligibility on all ADAP patients are certified at least on an annual basis.

HCSD management will reinforce policies and procedures with the hospitals cited by the legislative audit finding working with Larry Dorsey, Chief Executive Officer, at UMC, to

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ensure implementation of a hospital specific corrective action plan, and request internal monitoring at the facility level of patient files performed on a monthly basis until satisfactory results are attained. LAK has designated as lead Lisa Bruhl, Ancillary and Facility Plant Director, to oversee their corrective actions and has internally evaluated their process and implemented a corrective action plan on May 3, 2004 as per their response.

As an additional monitoring step, HCSD Internal Audit staff will routinely monitor and advise both hospital management and HCSD Administrative Management on an interim basis (during the year) on the adherence of the financial screening and documentation with the proscribed policies and procedures.

Should you have any questions or need additional information, please contact Marcia Daigle, Director of Planning and Governmental Relations at (225) 922-0493 or Guy LaBauve, Director of Patient Financial Services, at (225) 922-2223, both at the HCSD Central Office, or the hospital Chief Financial Officers at their respective locations.

Sincerely,

Robert M. Plaisance
Deputy Chief Executive Officer

RMP/GJL/rmw

LSU Health Sciences Center
HEALTH CARE SERVICES DIVISION

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November 18, 2004

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Post Office Box 94397
Baton Rouge, LA 70804-9397

RE: Audit Finding: Internal Control Weaknesses Over Capital Assets
Fiscal Year Ended June 30, 2004

Dear Mr. Theriot:

The Louisiana State University Health Sciences Center – Health Care Services Division (HCSD) concurs with the legislative audit finding regarding internal control weaknesses over movable property. However, we have at this time satisfied ourselves and the Legislative Audit staff through a reconciliation process that there are currently no material misstatements as of the end of State Fiscal Year 2004. We do agree that the risk of such material misstatement does exist without a reconciliation process. During the course of the State Fiscal Year 2004 Legislative Audit, HCSD Finance staff and Internal Audit staff, working in conjunction with the Legislative Audit staff were able to develop a conceptual reconciliation approach, test its validity, and use its methodology to reconcile and adjust the multiple systems to everyone's satisfaction.

HCSD intends to continue this reconciliation process to gain continuing assurance of the materially accurate financial presentation of HCSD capital assets up through the successful implementation of the PeopleSoft Asset Management Module. This implementation will be part of the overall PeopleSoft Financial System Version 8.8 Upgrade that is currently underway for all of the LSU Health Science Center Campuses (LSUHSC-Shreveport, LSUHSC-New Orleans and HCSD). HCSD has initiated taking a comprehensive inventory and adjustment of any balances necessary of all Capital assets. This inventory will be completed in SFY2005. The results of this inventory will be compared to the American Appraisal Associates (AAA) listing of capital assets, and appropriate adjustments made. This adjusted inventory will then be loaded as beginning balances into the PeopleSoft Asset Management Module. It is anticipated that this activity will be finalized by the end of the current fiscal year (June 30, 2005), based upon our current work plan timeframe.

Consistent with the current capital asset and movable property reporting practices of the other LSU Health Science Center Campuses, (LSUHSC-Shreveport and LSUHSC-New Orleans); HCSD will switch to an end of the fiscal year annual reporting and certification to the Louisiana Property Assistance Agency (LPAA). This reporting change has been recommended and agreed to by the Legislative Auditor's Office staff as part of our SFY 2004 audit. This action will complete our

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transition from routine transaction reporting to the LPAA to the methodology used by the other HSC campuses currently on PeopleSoft Asset Management.

As recommended, HCSD management will continue using the AAA system for reporting capital assets and the capture of depreciation until the PeopleSoft Asset Management System has been tested and proven to accurately reflect Capital Asset acquisition purchases and proper recordation under American Hospital Association depreciation guidelines within the PeopleSoft System, consistent with the cost reporting requirements. At that time HCSD will discontinue using AAA and exclusively use the PeopleSoft Asset Management system for all reporting of capitalized assets. It is anticipated that this transition will take place at the conclusion of State Fiscal Year 2006.

HCSD is also taking strong steps to correct the operational component of the internal control deficiencies cited in this finding by the Legislative Auditor's Office. These corrective action steps include the authorization to hire one additional staff person to monitor and offer guidance to the HCSD hospitals in the area of capital asset management. This step is currently being taken. As an additional part of this operational evaluation, a recommendation has been made by HCSD Finance staff to Executive Management relative to the organizational reporting relationships, the job allocations and technical requirements needed to accurately perform the duties necessary to account for and maintain the Capital Assets within the PeopleSoft Asset Management System. This recommendation is currently under review by HCSD Executive Management. Further action steps include a reinforcement of the oversight responsibility and accountability for accurate and timely capital asset management and recordation by the HCSD hospital administrators and CFO's. This step has been completed.

As an additional monitoring step, HCSD Internal Audit staff will routinely monitor and advise both hospital management and HCSD Administrative Management on an interim basis (during the year) on the adherence of the property managers with the proscribed policies and procedures.

Persons responsible for the corrective actions, monitoring and successful implementation of the above actions include the Director of Financial Services and the HCSD Asset Management Supervisor. Should you have any question or need additional information, please contact Art Landry, Director of Financial Services, at (225) 922-2265, or John Kelly, HCSD Asset Management Supervisor, at (225) 922-3340.

Sincerely,

Robert M. Plaisance
Deputy Chief Executive Officer

RP/ADL/adl

LSU Health Sciences Center
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November 18, 2004

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RE: Response to Legislative Auditor Findings
LSUHSC-Health Care Services Division (HCSD)
Weaknesses in the Controls over Inventories at Medical Center of Louisiana (MCLNO), University Medical Center, (UMC), Leonard J. Chabert Medical Center, (LJC)

Dear Mr. Theriot:

The Louisiana State University Health Sciences Center – Health Care Services Division (HCSD) concurs in part with the Weaknesses in the Controls over Inventories finding of the Office of the Legislative Auditor for State Fiscal Year 2004, as outlined below:

- Medical Center of Louisiana (MCLNO)
  HCSD executive management agrees with the comment by the Auditor that MCLNO did not maintain adequate controls over their consumable inventories. HCSD executive management disagrees that the consumable inventory component of the PeopleSoft system is not fully functional at an enterprise wide level. While that was a materially accurate and correct statement in fiscal years prior to SFY 2004, we do not believe that it is an accurate representation of the improvements and additional work that has been done by HCSD and HSC PeopleSoft Support staff on a system wide basis regarding the inventory system. It was not until SFY 2005 that MCLNO management was able to staff and effectively work with HCSD PeopleSoft support to diligently work toward a successful attempt to implement PeopleSoft inventory. This was due in part to other funding priorities in years of substantial budgetary challenges and an inability to allocate scare personnel resources to the endeavor. There has been substantial gains and progress made at MCLNO so far during the current fiscal year toward successful implementation of the PeopleSoft Inventory Application. While successful completion of the PeopleSoft inventory system installation at MCLNO is still pending this current fiscal year, HCSD management agrees with the response given to the Legislative Audit findings as stated in the letter from Greg Meier, dated October 12, 2004.

  In years prior to the conversion of the HSC and the HCSD hospitals to PeopleSoft, the only perpetual inventory system that MCLNO had was the ESI system in their warehouse. No other perpetual systems were in place or cited as a materials management internal control deficiency that we are aware of. HCSD and MCLNO management both agree that implementation of PeopleSoft inventory at the warehouse is vital for internal control safeguards, to control and measure costs, and to improve the operational efficiencies of the materials management system at MCLNO. Additionally, both management groups agree that conversion of the warehouse to PeopleSoft inventory is just a first

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step and that most, if not all, consumable inventory areas should have either perpetual systems in place, and/or a system of compensating internal controls in place.

LSUHSC and the HCSD PeopleSoft support staff continue to offer additional support and training to the MCLNO efforts to the extent possible and as resources are available. Additionally, extensive procedures and validation/audit reports have been and continue to be made available to the hospitals to assist them in their efforts to manage and learn the functionality of the PeopleSoft inventory system.

- University Medical Center, (UMC)
  HCSD executive management agrees with the statements made by the UMC administrator in his individual response to the PeopleSoft inventory finding by the Legislative Auditors dated March 19, 2004. Additionally, HCSD PeopleSoft Support staff continues to work with UMC staff and management toward the successful implementation of the PeopleSoft inventory system.
- Leonard J. Chabert Medical Center, (LJC)
  HCSD management disagrees with the Legislative Auditor finding at LJC in stating that the PeopleSoft inventory system is not fully functioning at LJC. The PeopleSoft inventory system is fully functioning, reflective of entries made and actions taken or not taken by the LJC staff. It would be more accurate to say that the audit finding is reflective of a breakdown in the internal controls surrounding the use of the PeopleSoft inventory system and a failure to follow appropriate procedures. HCSD management does agree with the response as made by the LJC administrator dated March 11, 2004, which states that corrective actions have already been taken.

As an additional incentive for operational improvements and to strengthen internal controls in the utilization of the PeopleSoft inventory position, the HCSDA Internal Audit staff routinely conducts test work and examinations of the operations of all HCSD hospitals in the area of consumable inventory (supply chain management).

Additionally, on an annual basis at year end, HCSD management routinely requests that HCSDA Internal Audit perform a test of year end physical inventory counts and selectively reconcile back to original procurement documents and entries recorded in the PeopleSoft system to attest to the accuracy and completeness of the balances that are recorded on the Annual Financial Reports for HCSD. This activity for SFY 2004 is documented in the internal audit report # 04-11-R18 dated October 29, 2004.

The positions responsible for the corrective actions, monitoring and successful implementation of the above actions include the HCSD Director of Financial Services, HCSD Asset Management Supervisor and the respective hospital Chief Financial Officer at the hospitals cited above. Should you have any question or need additional information, please contact Art Landry, Director of Financial Services, at (225) 922-2265, or Peter Omorotionmwan, HCSD PeopleSoft Supply Chain Support Manager, at (225) 922-3231.

Sincerely,

Robert M. Plaisance
Deputy Chief Executive Officer

RP/ADL/adl

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RE: Audit Finding: Inadequacies in Controls Over Movable Property
Fiscal Year Ended June 30, 2004

Dear Mr. Theriot:

The Louisiana State University Health Sciences Center – Health Care Services Division (HCSD) concurs with the legislative audit finding regarding inadequacies in controls over movable property at Medical Center of Louisiana at New Orleans (MCLNO) and University Medical Center (UMC) for the fiscal year ended June 30, 2004. Please refer to responses from the hospitals submitted to the legislative audit staff dated May 11, 2004 for UMC and October 11, 2004 for MCLNO.

HCSD business units are currently managing movable property through multiple systems, including entering property into the Louisiana Property Assistance Agency (LPAA) system and conducting its annual certification of inventory based on records from LPAA. HCSD is currently upgrading its PeopleSoft Financial System, and will implement the PeopleSoft Asset Management Module as part of the upgrade. This will streamline the paperwork flow and procedures for tracking movable property and the Certification of Annual Property of Inventory. As part of the Louisiana State University System, HCSD is not required to enter its property records into LPAA, but has not had opportunity to implement the PeopleSoft Asset Management Module as an alternative system to use. With PeopleSoft Asset Management, all purchasing, receiving and tracking of movable property will be done in one integrated system, and the annual inventory will be conducted based on those records, with an annual report submitted to LPAA as required. Procedures for purchasing, receiving, tagging and inventory will be strengthened and standardized across all HCSD business units. This is expected to be completed during Fiscal Year 2006.

The HCSD Internal Audit Staff conducted a limited review of MCLNO movable property in August 2004. They provided MCLNO management with recommendations for improvements and MCLNO management staff initiated procedures to comply with those recommendations. UMC management has also implemented monthly reviews to ensure adherence to policies and procedures.

Additional staff has been approved for both MCLNO and HCSD Central Office in the area of movable property. A recommendation has also been made by HCSD Finance staff to Executive

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Management relative to the organizational reporting relationships, the job allocations and technical requirements needed to accurately perform the duties necessary to account for and maintain movable property within the PeopleSoft Asset Management System. This recommendation is currently under review by HCSD Executive Management.

As an additional monitoring step, HCSD Internal Audit staff will routinely monitor and advise both hospital management and HCSD Administrative Management on an interim basis (during the year) on the adherence of the property managers with the proscribed policies and procedures.

Should you have any questions or need additional information, please contact Art Landry, Director of Financial Services, at (225) 922-2265 or Joy Barnett, Administrative Services Director, at (225) 922-0569, both at the HCSD Central Office, or the hospital Chief Financial Officers at their respective locations.

Sincerely,

Robert M. Plaisance
Deputy Chief Executive Officer

RMP/ADL/jma